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TO RUEHC/SECSTATE WASHDC 2853  
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RUEHBK/AMEMBASSY BANGKOK 3449  
RUEHBJ/AMEMBASSY BEIJING 5862  
RUEHUL/AMEMBASSY SEOUL 8205  
RUEHGP/AMEMBASSY SINGAPORE 6659  
RUEHKO/AMEMBASSY TOKYO 8167  
RUEHML/AMEMBASSY MANILA 9827  
RUEHJA/AMEMBASSY JAKARTA 3933  
RUEHKL/AMEMBASSY KUALA LUMPUR 3580  
RUEHHI/AMEMBASSY HANOI 3150  
RUEHBY/AMEMBASSY CANBERRA 4356  
RUEHWL/AMEMBASSY WELLINGTON 1582  
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STATE FOR EAP/RSP/TC, EAP/EP  
USTR FOR ALTBACH  
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [ETRD](#) [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: EU Advocates Improved Taiwan-China Ties

SUMMARY

1. (U) The just-published European Chamber of Commerce in Taipei (ECCT) 2006-2007 White Paper urges Taiwan to take immediate action to improve cross-Straits relations or suffer bleak economic consequences. The report also urges Taiwan to abide by its WTO commitments, and provide better tax incentives to attract foreign investment. In response, Taiwan authorities have noted that the EU has its own restrictions on trade with China, and that the number of ECCT members has more than doubled over the past four years. END SUMMARY.

White Paper Urges Taiwan to Face Reality

2. (U) On October 26, the ECCT published its 2006-2007 Position Paper (White Paper). The ECCT urges Taiwan to "Face Reality!" and normalize cross-Straits economic relations. As in last year's paper, the ECCT covers five priority issues: 1) cross-Straits economic relations, 2) restrictions on European enterprises, 3) Taiwan's compliance with its WTO commitments, 4) development of the financial sector, and 5) tax incentives for foreign investors.

Cross-Straits Economic Relations

3. (U) The ECCT asks Taiwan to permit direct cross-Straits air and sea navigation, lift restrictions on PRC nationals visiting and working in Taiwan, remove bans on imports of PRC-made products, and relax the 40% limit on investment in China by Taiwan firms. It notes these limits have restricted expansion of joint ventures in China between European firms and their Taiwan partners.

Normal Relations Would Transform Taiwan's Economy

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¶4. (U) The White Paper includes the executive summary of a ECCT-sponsored impact study on cross-Strait business normalization which describes the enormous positive benefit that key sections of Taiwan's economy could derive from improved relations with China. According to the study, normalized relations with China would enable Taiwan to achieve its economic goal of transforming itself into a regional corporate services center, and thereby ensure continued prosperity for the Taiwan people. The study concludes that removal of bans on imports from China will benefit Taiwan's retail industries by increasing Taiwan's GDP by an amazing 3.5%.

#### Excessive Regulations

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¶5. (U) European companies believe excessive regulations have hindered them from getting full market access in Taiwan. The report complains of long and non-transparent product approval procedures in banking services, Taiwan-only safety regulations for cars, multiple licensing requirements for retail stores, and lack of recognition of international standards. For example, the reports notes that in the automotive industry Taiwan does not recognize foreign testing results and does not accept the original English version of technical data. Taiwan's automobile parts marking requirements are not harmonized with international practice and standards.

#### WTO Compliance

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¶6. (U) The ECCT White Paper indicates that Taiwan has made little progress in resolving outstanding WTO non-compliance issues or in accession to the WTO Government Procurement Agreement. Taiwan

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continues to maintain import bans on over 2,000 products from China and restrict PRC visitors of foreign companies not registered in Taiwan.

#### Development of Service Sector

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¶7. (U) The White Paper suggests Taiwan should increase infrastructure construction and the upgrading of key service industries is lagging behind plans. It notes that consolidation of the banking sector has attracted only a limited number of foreign investors. In the logistic sector, the free trading zone program has attracted only a handful of investors. Taiwan has made little progress in promoting inbound tourism due to lack of effective marketing plans and outdated infrastructure.

#### Tax Incentives

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¶8. (U) The ECCT report notes that Taiwan has adopted restrictive tax regulations and reduced tax incentives over the past year and that the unfavorable tax climate may cause foreign and domestic companies to reduce their investment in Taiwan or move their business elsewhere. It complains that the 40% maximum income tax is far higher than the 17% average income tax in Hong Kong.

#### Harsh Criticisms

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¶9. (U) The ECCT report states that without normalization of cross-Strait relations and without further economic liberalization, a growing number of European firms will leave Taiwan. The report notes that the number of European firms going out of business in Taiwan increased from 15 in 2005 to 33 so far this year. The ECCT Banking Committee said that Taiwan will become a "regional bad debt center" if policies hindered Taiwan banks from moving along with their customers across the Taiwan Strait.

#### Taiwan Responses

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¶10. (U) In response to the ECCT report, Hu Sheng-cheng, Chairman of the Council for Economic Planning and Development (CEPD), publicly observed that the ECCT has not shrunk, but has expanded from some 300 members four years ago to more than 700 members today, and that Europe has surpassed the United States and Japan as the top source of Taiwan's foreign direct investment. Chairman Hu noted that Taiwan is more open towards cross-Strait exchanges than in the past, and that both sides retain some barriers to cross-Strait economic exchanges, just as the EU restricts a range of products from China.

¶11. (SBU) During a dinner on October 24, Wu Rong-I, President of Taiwan Futures Exchange and former Vice Premier in the Chen Administration, criticized the ECCT Paper and press conference. He said the Europeans had no ground for describing Taiwan's economic prospects in such bleak terms. As the former head of Taiwan Institute of Economic Research and a leading professor of economics, Wu's views are based on a sound understanding of economics. However, Wu is also widely known for his strong support of a separate Taiwan identity and for pushing a cautious policy on engaging economically with China. While Vice Premier, he publicly called on the Taiwan business community to invest in markets other than China and to be wary of becoming overly dependent on ties with China.

COMMENT  
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¶12. (SBU) The ECCT report echoes this year's AmCham report in providing strong economic reasons why Taiwan should normalize relations with China. China's pending free trade agreements with ASEAN and other regional economies make the arguments even more compelling: to preserve its economic prosperity and growth Taiwan needs to normalize relations with China. However, the ECCT report does not address the implications for EU and U.S. economic and other interests of an ASEAN plus China, plus Taiwan free trade area that excludes the EU and U.S., nor does it address the strategic implications of a Taiwan business community convinced (by the U.S. and the EU) that its economic interests are best served by closer alignment with China.

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